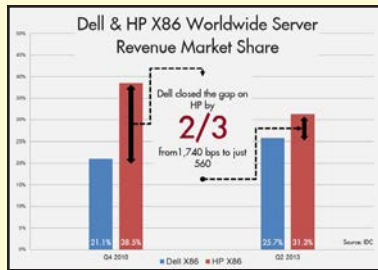


# How Effective Pricing Can Enable Businesses to Achieve Their Strategic Objectives



This article will demonstrate – using HP and Dell’s X86 server businesses as an example - how pricing can be used to achieve strategic objectives. Dell’s effective pricing drove increases in X86 server market-share by delivering nine consecutive quarters of superior revenue growth to HP, their #1 competitor and the market-leader. Was pricing the driving force behind this? HP in its quarterly analysts’ briefings said that it was. Author Paul Charlton ([paul.charlton@thepricingfactory.com](mailto:paul.charlton@thepricingfactory.com)) is the owner and founder of The Pricing Factory and has had many years of directing pricing at a global, regional and local level for high tech companies such as Compaq, HP & Dell.

Pricing may well have more influence over business outcomes than any other business lever. That has certainly been my experience in high tech. It’s also a tough notion for engineers and marketers to digest. No matter how wonderful their technology is, without effective pricing, it is unlikely to be successful.

It is important that you use pricing effectively. At the very least you need to use pricing more effectively than your competitors. The difference between your pricing effectiveness and that of your competitors is your pricing advantage.

The first order of the day for a pricing professional is to ensure that pricing is effective and as such that it yields consistent and predictable results. Pricing exists not in isolation but as one lever working in conjunction with many others, such as demand planning, procurement, financial planning, to support the attainment of the business’s objectives.

Figure 1: HP’s Server Market-Share Comments in Quarterly Earnings Conference Call

- Apr-11 “We continue to be the worldwide leader in servers” (Leo Apotheker - CEO, HP)
- Apr-11 “HP remains #1 in the blade server market” (Cathie Lesjack – CFO, HP)
- Jul-11 “Our industry standard servers remain #1 in share across all 3 regions .... HP remains #1 in the blade server market with roughly half the market” (Cathie Lesjack – CFO, HP)
- Jan-13 “In addition, HP ProLiant has been the #1 server brand for 67 quarters in a row with an estimated 32.1% of total x86 units shipments share in the fourth calendar quarter.” (Meg Whitman – CEO, HP)
- Oct-13 “We expect to gain over 1 point of (blade) share here and extend the market leadership position we have already held for 27 quarters.” (Meg Whitman – CEO, HP)

Pricing itself may be considered not as a single lever, but as a collection or portfolio of multiple interactive sub-levers working in conjunction under the orchestration of a pricing leader. Examples of sub-levers might include list price position, channel pricing framework, appropriate use of exchange rates, linking pricing strategy to value proposition, discounting policies and guidance, link between pricing strategy and sales compensation, internal price communication, etc. Not all of the sub-levers need to be working to maximum effect in order for pricing to be effective, but improving a company’s pricing effectiveness should involve prioritizing resources to optimize the net pricing effectiveness of the pricing portfolio as a whole rather than individual sub-levers.

Let’s look at a case where it is possible to demonstrate that pricing was used as a primary lever to attain a key business objective.

The case study is set in the global X86 server business, which is key to the internet and the cloud. It’s the compute part of the data center which is driven by Intel, AMD and increasingly ARM processors. And compute drives a lot of attached storage, networking, software and services. It’s a big money business.

Dell’s PowerEdge is the perennial #2 in terms of global revenue market-share, and HP, with its ProLiant brand, is #1, which just so happens to be HP’s primary marketing tool for their business. Dell’s objective was to become #1 in order to take that marketing tool away from HP.

This case is instructive because it is rare that a business objective, in this case differential revenue growth, can be examined using publically available information. Pricing’s success or failure is not often apparent from statutory or industry analyst reporting. Also the players are often not in a position nor particularly inclined to report it. At the same time I would also refer you to “The Tyranny of Growth” by Stephan Liozu (*The Journal of Professional Pricing*, 2014 Q2) not to necessarily judge on the merits of the objectives of becoming #1 in revenue market-share but to be aware, as the author notes, of the pitfalls of revenue growth above all else.

Let’s examine the impact that effective pricing can have by review-

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Figure 2: More X86 facts from HP about being #1 in server market-share on its own website

## The Real Story about Server Market Share

HP is a leader in the server market, the latest market share results from IDC confirm it.

**Fact 1: HP is the #1 vendor in worldwide server revenue.** HP is #1 in worldwide revenue with 26.5% share. HP is the only vendor to garner more than 20% revenue share. IBM, at #2, had 19.1% share, and lost -5.9 points of revenue share year over year.

**Fact 2: For 12 consecutive years, 48 straight quarters, HP is the #1 vendor in worldwide server shipments.** HP shipped more than 4 servers each minute in the first calendar quarter 2014. Overall in this quarter HP shipped more than 70,000 more servers than Dell, 3.2 times as many servers as IBM and 8.4 times as many as Cisco.

**Fact 3: HP leads the total blade server market, with a 43.7% revenue share. HP has led the blade server market for 30 consecutive quarters, 7 ½ years.** HP is #1 in blade unit share, 45.2%, and has more unit share than Cisco, Dell and IBM - COMBINED. IBM lost -4.9 points of unit share year over year. In the quarter, HP shipped 2.3x as many blades as Cisco, 3.6x as many as Dell and 3.8x as many as IBM.

**Fact 4: HP leads in combined Density Optimized and Blade servers with 2 times (2x) more revenue market share than the closest competitor, Cisco.** HP leads with 35.7% revenue market share in this segment, identified by IDC as a significant and growing market, driven by demand in public cloud hyperscale environments, as well as private cloud and integrated systems.

**Fact 5: HP ProLiant is the x86 server market share leader in both revenue and units for 72 consecutive quarters, 18 years.**<sup>2</sup> Sustained market leadership is a hallmark of HP ProLiant innovation.

**Fact 6: HP leads in EPIC+RISC blade server revenue.** HP Integrity blades maintained the number one position in revenue for the RISC+EPIC blade segment with 72.8% worldwide share.

**Fact 7: HP is #1 in Windows® revenue and units worldwide.** HP has a 35.0% revenue share of the Windows market and leads the nearest competitor, Dell, by 8.7 points.

**Fact 8: HP is #1 in Linux® revenue and units worldwide.** HP has a 20.8% revenue share of the Linux market and leads the nearest competitor, Dell, by 5.7 percentage points.

**Fact 9: For the 3 major operating environments UNIX, Windows and Linux combined (representing 99.9% of all servers shipped worldwide), HP is #1 worldwide in server revenue and unit shipments.**

HP has 8.9 percentage points more revenue share than the 2nd position server vendor in this market.

ing the growth gap between Dell and HP's X86 server divisions and the reasons behind it.

HP's X86 Server division uses its #1 position in revenue market-share as its primary marketing tool. This is evident from at least three public perspectives:

- a. It is continuously referred to HP's Quarterly Earning Conference Calls (see [Figure 1](#))
- b. HP has a page on its website dedicated to illustrating every which way it can be described as being #1 (see [Figure 2](#))
- c. Dell stated clearly that it needed to become #1 in revenue market-share (see [Figure 3](#))

### Consistently superior revenue growth

The only way for Dell to become #1 in X86 revenue market-share was to consistently grow its X86 server revenue greater than HP over a number of quarters. Up until January 2011, Dell had failed to do that see [Figure 4](#).

But from April 2011 to August 2013, Dell grew consistently at a greater rate than HP, with increasingly and consistently larger growth gaps than historical norms as it drove to achieve its aim of being #1 in server revenue share. See from points A to D on [Figure 5](#).

But was the superior revenue growth attributable to more effective pricing by Dell? Yes, because HP itself said it was.

- a. Over half the comments made by HP execs or analysts [CONTINUED ON NEXT PAGE →](#)

Figure 3: Dell's X86 comments related to becoming #1 in server market-share

• Dec-12 "In his keynote, Dell, the man, said that as of the Q3 of this year, Dell was the #1 server supplier in North America and had taken the #1 position in Asia, too. Dell meant in terms of shipments, not revenues, of course .... **"If you look at the trajectory, we are on a path to become number one worldwide in servers within the next few quarters."** (qv Michael Dell, President & Chairman)

The real question is not when Dell will ship more boxes, but when it will rival HP and IBM in terms of revenues .... If HP just managed to level off and hold steady, Dell will catch up with it between 2016 and 2017 in terms of worldwide revenues, and **if HP keeps losing revenue share as it currently doing, Dell will catch up with HP in 2015."**

*Timothy Prickett Morgan, The Register*

• Sep-11 **"Dell is closing in on being the #1 supplier of mass-market Intel-based servers – its' revenue from the machines rose 11% to \$2.19 billion in the second quarter, while Hewlett-Packard's revenue fell 15%, according to market researcher Gartner Inc."**

*By Aaron Ricadela/Bloomberg interview with Marius Hass*

in HP's quarterly Earnings Conference Call related to X86 servers concerned either pricing competitiveness or pricing execution. See [Figure 6](#) below for type of comment over time, and [Figures 7](#) and [8](#) for the actual comments themselves.

**b.** In the quarters after August 2013 when HP's growth improved, the number of pricing comments fell dramatically, and conversely, when it deteriorated, the number of comments increased.

It would be safe then to attribute a substantial part of Dell's increasingly superior revenue growth rate to it having effective pricing and more specifically more effective pricing than HP thereby obtaining a pricing advantage over its competitor.

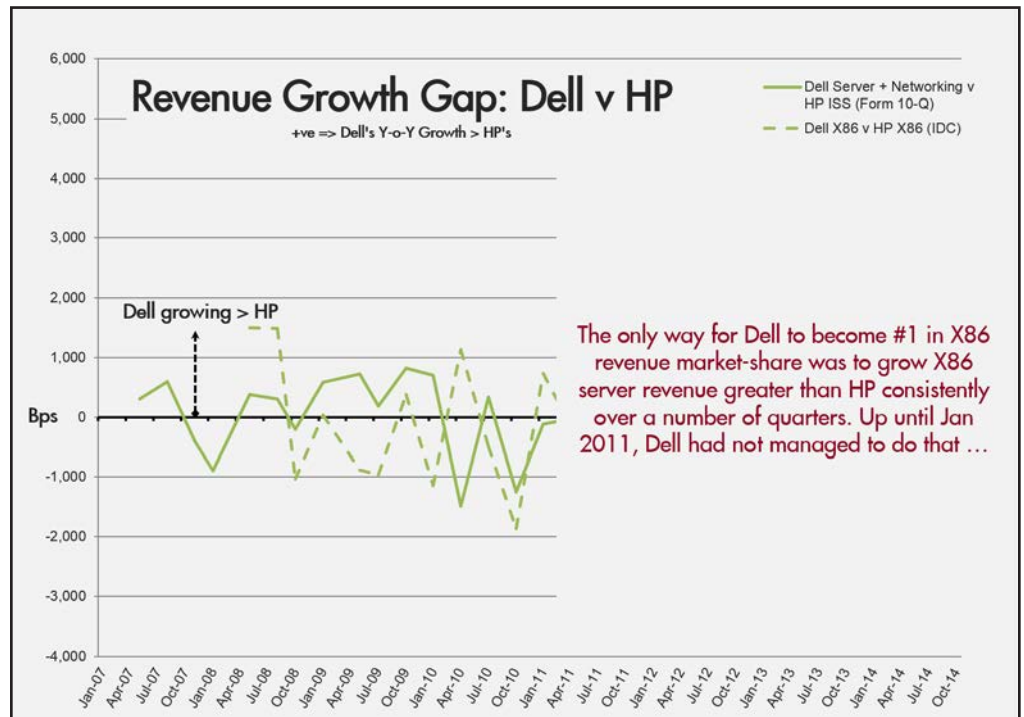
So superior revenue growth is all very well but what does this mean in terms of money?

During this period, Dell increased revenue cumulatively by \$340M over 10Q, while HP's had decreased by \$742M. This created a growth gap of \$1.1B see [Figure 9](#).

But what does that mean in terms of Dell closing the market share gap on HP?

During this period, from A to D, Dell decreased the gap to HP

Figure 4



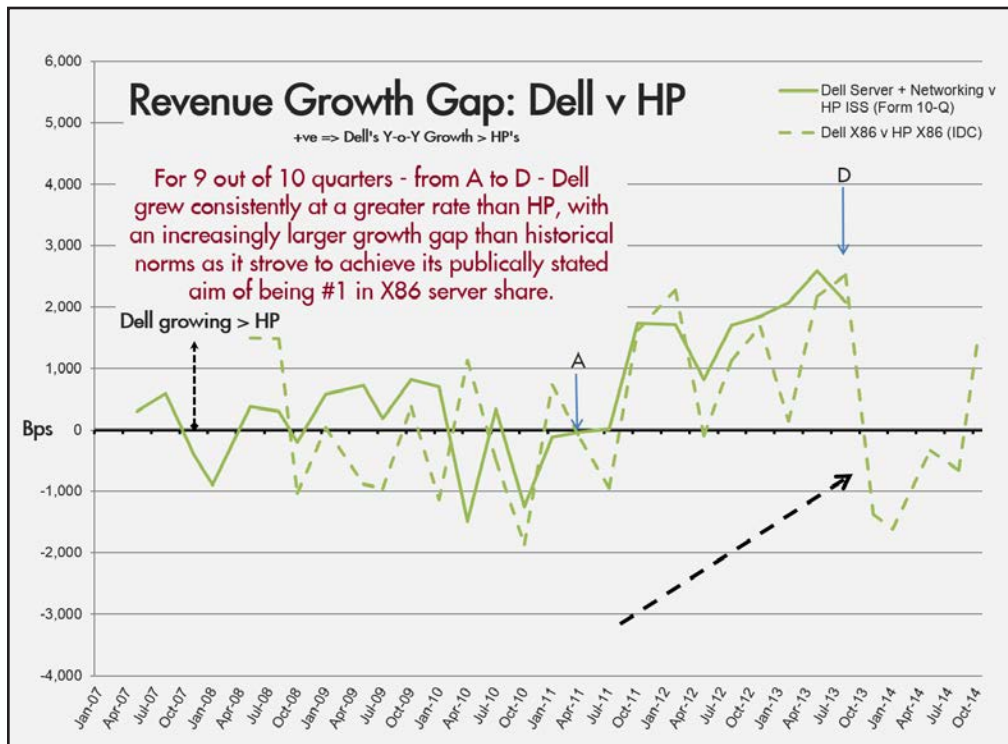
from 1740 bps to just 540 bps (or 5.6% of market-share if you prefer) see [Figure 10](#).

In other words, according to IDC's data, the gap fell by 2/3 see [Figure 11](#).

**Summary**

Revenue market-share position in X86 Servers is the critical marketing tool for HP. The only way for Dell to take this away from HP was to become #1 by consistently growing the company's X86 server revenue at a greater rate than HP over a sustained period of time. Dell was able to do this for nine consecutive quarters in pursuit of this goal.

Figure 5



But how do we know this was attributable to effective pricing? HP itself mainly attributed the under-performance of its X86 server division in Quarterly Earnings Conference Calls to analysts lacking pricing competitiveness and poor pricing execution. More than 50% of the references made to its X86 server division during this period related to pricing.

It is therefore possible to conclude that the application of effective pricing, or more specifically, more effective pricing than the competition, can lead to pricing advantage which in turn can lead to the attainment of a key business objective.

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Figure 6: The type and distribution of HP's X86 Comments in its Quarterly Earnings Conference Call

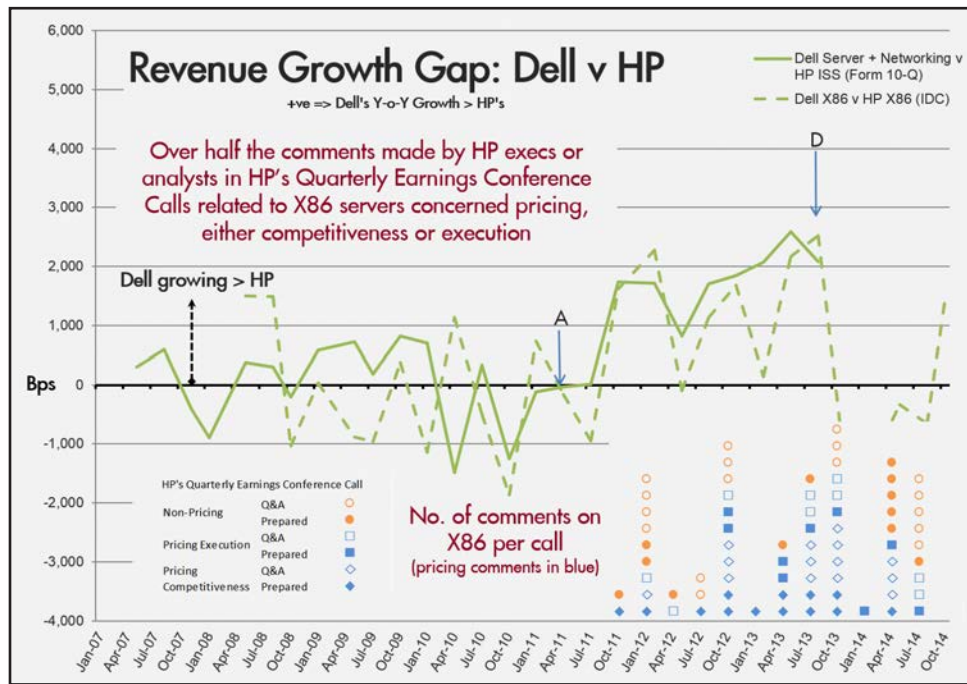


Figure 7: HP's Pricing Competitiveness Comments in Quarterly Earnings Conference Call

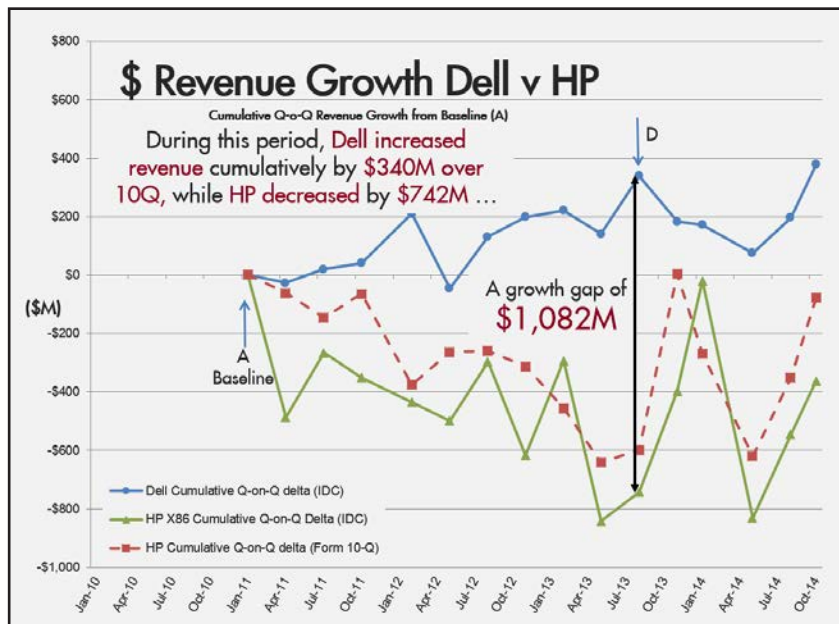
- Oct-11 “(ESSN) Operating margins were impacted by ... **competitive pricing pressure** ...” (Cathie Lesjack – CFO, HP).
- Jan-12 “(ISS) revenue was down in a **highly competitive environment** ...” (Meg Whitman – CEO, HP)
- Jul-12 “(ESSN) **margin decrease was driven by competitive pricing** and a higher mix of less profitable customers in regions within ISS ...” “(ISS) revenue declined 3% year over year, with .... **competitive pricing.**” (Cathie Lesjack – CFO, HP)
- Oct-12 “(ESSN) Margin pressure was **driven by a very aggressive pricing** back drop ... So a lot of the softness in the (ESSN) operating margins really came from lower top line growth driven by ... **a very aggressive pricing environment especially in Europe.**” (Cathie Lesjack – CFO, HP)
- Apr-13 “In (ISS), we underperformed in both the hyper-scale and mainstream server markets. Our underperformance was driven by **both market conditions** ... we saw single-digit revenue decline as **competitors aggressive-ly priced in the market ... again encountered very aggressive competitive pricing**” (Meg Whitman – CEO, HP)
- “.... (ISS) Revenue declined 12% year-over-year with double-digit declines across all major geographies on .... **and an intensely competitive pricing environment** ” (Cathie Lesjack)
- Jul-13 “We see near term revenue pressures in ISS ... where we face **aggressive pricing and competition.**” “In addition, mainstream **server weakness was driven by ... competitive pricing** ... This impacted our revenue and profitability.” (Meg Whitman - CEO, HP) “....but we face **extreme competitive pricing** in (ISS)” (Cathie Lesjack – CFO, HP) “Enterprise Group’s performance .... **it’s been a very aggressive pricing environment.**” (Meg Whitman – CEO, HP) “**The pricing in the (ISS) marketplace is as intense as I’ve seen it since I’ve been at HP. But the revenue share loss this quarter was bigger than we had anticipated.** I had said in the script it was 5 points of share loss on a revenue basis ... ” (Meg Whitman – CEO, HP)

[See [Figures 8](#) and [9](#) on next page.]

Figure 8: HP's Pricing Execution Comments in Quarterly Earnings Conference Call

- Jan-12 "... upgrading our sales tools and systems to **respond more quickly to customers**" (Meg Whitman – CEO, HP)
- Apr-12 "... **implementing consistent pricing & promotions to drive end-user demand profitably**" (Meg Whitman – CEO, HP)
- Oct-12 "Our Gen 8 rollout continues to track positively, although we saw pressures on our pricing and margins as we work to **improve our channel execution.**"  
 "(ISS) introduced a number of changes to address immediate concerns and will rollout additional changes that we expect will deliver **improved execution** throughout fiscal year '13."  
 "... we have to focus on our mainstream industry standard server business which is the weak spot here, and we are doing a **whole host of work around our channel relationships** in that business ...." (Meg Whitman – CEO, HP)
- Apr-13 "In Industry Standard Servers, we underperformed ... Our **underperformance was driven by ... our own execution** ... competitors aggressively priced in the market, but that cannot be an excuse. **We simply have to execute better** .... We are moving quickly to revamp business models to **give our sales teams and channel partners more tools and more agility, especially on pricing. .... we need to improve our operational execution** ...." (Meg Whitman – CEO, HP).  
 "At the business unit level, industry standard server performance was not where we expected it to be .... **declines across all major geographies on poor execution** ..." (Cathie Lesjock – CFO, HP)
- Jul-13 "In addition, **mainstream server weakness was driven by execution challenges** ... This impacted our revenue and profitability. The net impact of these execution challenges is an expected loss of 5 points of market share on a revenue basis .... **But go-to-market is more than just a coverage model. It is our ability to price.**" "First is Enterprise Group's performance ....**weak execution** has amplified the market challenges that we know exist ...." (Meg Whitman – CEO, HP)
- Oct-13 "Our Blades business recovered as the benefits of our targeted segmentation and efforts to improve operational excellence paid off .... We saw improved sales in our mainstream server business, **but we need to improve our pricing discipline and profitability.**" "That said, obviously, a very competitive pricing environment, but **I feel good about our ability to do a better job in the future of managing margin in ISS.**" (Meg Whitman – CEO, HP)

Figure 9



[See [Figures 10](#) and [11](#) on next page.]

Figure 10

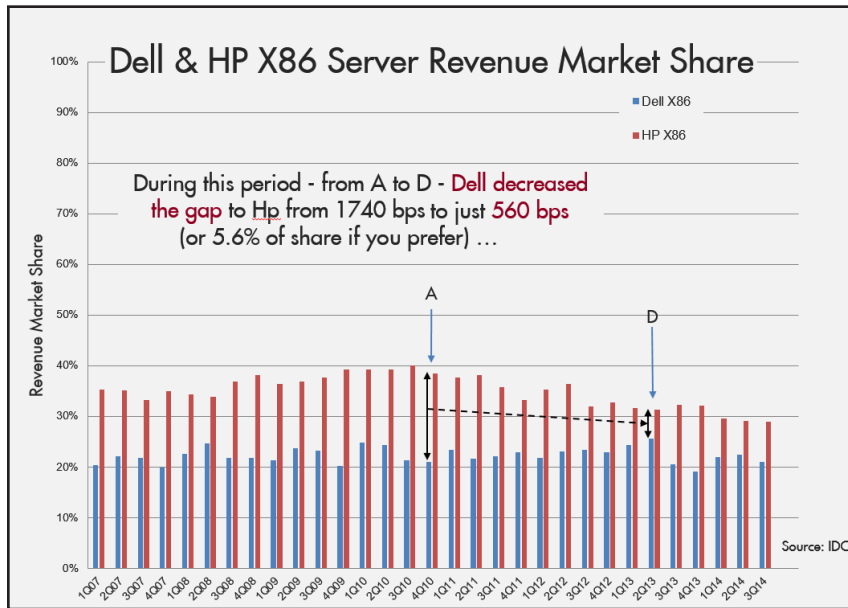


Figure 11

